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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

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FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

I92-2239

For Quarter Ended March 31, 1992 Commission File Number 0-12015

HEALTHCARE SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	23-2018365
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification number)

2643 Huntingdon Pike, Huntingdon Valley, Pennsylvania 19006

(Address of principal executive office) (Zip code)

Registrant's telephone number, including area code: (215) 938-1661

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES X NO ____

Number of shares of common stock, issued and outstanding as of May 18, 1992 is 7,742,988

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Part I. FINANCIAL INFORMATION

HEALTHCARE SERVICES GROUP, INC.
CONSOLIDATED BALANCE SHEETS

	Mar 31, 1992	Dec 31, 1991
	(Unaudited)	(Audited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,638,716	$ 9,759,260
Tax exempt marketable securities, at cost which approximates market	109,534	124,004
Accounts receivable, less allowance for doubtful accounts of $1,678,498 in 1992 and 1991	26,809,749	23,919,583
Prepaid income taxes	1,369,637	1,575,054
Inventories and supplies	3,793,448	3,595,522
Deferred income taxes	3,695,912	3,229,449
Prepaid expenses and other	941,484	695,696
Total current assets	44,358,480	42,898,568
PROPERTY AND EQUIPMENT:		
Laundry and linen equipment	7,774,724	7,177,790
Housekeeping equipment and office furniture	2,772,314	2,528,856
Autos and trucks	188,306	188,306
	10,735,344	9,894,952
Less accumulated depreciation	4,510,333	4,077,892
	6,225,011	5,817,060
INTANGIBLE ASSETS LESS ACCUMULATED AMORTIZATION OF $238,116 IN 1992 AND $220,987 IN 1991	1,267,115	1,284,244
COST IN EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED LESS ACCUMULATED AMORTIZATION OF $701,491 IN 1992 AND $673,585 IN 1991	2,673,986	2,701,892
CERTIFICATES OF DEPOSIT PLEDGED FOR LOAN GUARANTEES	1,500,000	1,500,000
DEFERRED INCOME TAXES	1,486,217	1,589,407
OTHER NONCURRENT ASSETS	2,439,705	3,599,324
	$59,950,514	$59,390,495
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,239,288	$ 1,128,151
Accrued payroll	1,362,077	2,536,423
Accrued and withheld payroll taxes	613,866	557,090
Other accrued expenses	1,067,635	1,759,599
Accrued insurance claims	7,421,005	6,253,096
Total current liabilities	11,703,871	12,234,359
RESERVE FOR CONTINGENT LOSSES ON PROMISSORY NOTES (Note 3)	1,910,000	1,910,000
COMMITMENTS AND CONTINGENCIES (Notes 2, 3, 4 and 5)		
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value: 10,000,000 shares authorized, 7,742,988 shares issued in 1992 and 7,741,225 in 1991	77,430	77,412
Additional paid-in capital	31,152,884	31,131,858
Retained earnings	15,106,329	14,036,866
Total stockholders' equity	46,336,643	45,246,136
	$59,950,514	$59,390,495

See accompanying notes.

HEALTHCARE SERVICES GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
For the Three Months Ended
March 31,

	1992	1991
	(Unaudited)	(Unaudited)
Revenues	$22,640,747	$19,124,906
Operating costs and expenses:		
Cost of services provided	19,327,918	16,439,977
Selling, general and administrative	1,723,144	1,585,418
Other income:		
Other income (expense)	11,261	(5,618)
Interest income	123,517	188,851
Income before income taxes	1,724,463	1,282,744
Income taxes	655,000	467,225
Net income	$ 1,069,463	$ 815,519
Earnings per common share	$ 0.14	$ 0.10
Weighted average number of common shares outstanding	7,892,797	7,869,039

See acccompanying notes.

HEALTHCARE SERVICES GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	1992	1991
Cash flows from operating activities:		
Net Income	$ 1,069,463	$ 815,519
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	478,476	389,783
Deferred income taxes (benefits)	(363,273)	(510,225)
Tax benefit of stock option transactions	5,795	163,545
Changes in operating assets and liabilities:		
Accounts receivable	(2,890,166)	(1,072,483)
Prepaid income taxes	205,417	
Inventories and supplies	(197,926)	(608,540)
Changes to long-term trade notes receivable	1,009,887	1,515,210
Accounts payable and other accrued expenses	(580,827)	(89,044)
Accrued payroll, accrued and witheld payroll taxes	(1,117,570)	(523,787)
Accrued insurance claims	1,167,909	1,042,142
Income taxes payable		(395,412)
Prepaid expenses and other assets	(97,056)	327,360
Net cash provided by (used) in operating activities	(1,309,871)	1,054,068
Cash flows from investing activities:		
Financing arrangement made for client (Note 3)		(1,000,000)
Proceeds from sale of promissory note (Note 3)		1,000,000
Disposals of fixed assets		7,119
Additions to property and equipment	(840,392)	(474,479)
Proceeds from maturities of marketable securities	14,470	1,462,122
Other, net		(85,254)
Net cash provided by (used in) investing activities	(825,922)	909,508
Cash flows from financing activities:		
Proceeds from the exercise of stock options	15,249	361,868
Net cash provided by financing activities	15,249	361,868
Net increase (decrease) in cash and cash equivalents	(2,120,544)	2,325,444
Cash and cash equivalents at beginning of the period	9,759,260	7,364,348
Cash and cash equivalents at end of the period	$ 7,638,716	$ 9,689,792

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Basis of Reporting

The accompanying financial statements are unaudited and do not include certain information and note disclosures required by generally accepted accounting principles for complete financial statements. The balance sheet shown in this report as of March 31, 1992 has been derived from, and does not include, all the disclosures contained in the consolidated financial statements for the year ended December 31, 1991. These statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1991. However, in the opinion of the Company, all adjustments considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 1992 are not necessarily indicative of the results that may be expected for the full fiscal year.

Note 2 - Provision at December 31, 1991 for Write-down of Accounts Receivable Due Under Service Agreements Cancelled during the Quarter Ended September 30, 1990

Included in the Consolidated Statements of Income for the year ended December 31, 1991 was a provision of $1,000,000 before income taxes (approximately $600,000 after tax or $.08 per common share) in connection with uncertainties regarding accounts receivable due under service agreements cancelled during the quarter ended September 30, 1990 (See Note 2 of Notes to Consolidated Financial Statements at December 31, 1991), which were obtained as part of the acquisition of American Services Company. The cancellations were by nursing homes managed by groups which acquired control shortly before cancellation. The Company is owed approximately $1,800,000 for services rendered prior to the cancellations which amount is included, after reflecting the $1,000,000 provision, in other assets at March 31, 1992 and December 31, 1991 (see Note 1 of Notes to Consolidated Financial Statements at December 31, 1991). At December 31, 1990 the Company was owed $2,138,000 under these same service agreements, which amount was included in accounts receivable or other assets at that date.

Among the cancellations were one group which controls 26 nursing homes owing the Company in excess of $900,000. The Company and the entity that controls these nursing homes are now in litigation which is in the preliminary stages. Such entities commenced a state court action against the Company for $600,000 plus punitive damages. The Company believes that there are meritorious defenses to such claim and has asserted a counterclaim in the amount of $900,000. The Company does not believe that a final judgment will have a material adverse effect on the financial condition of the Company.

The Company believes it may be able to collect the amounts owed by other groups, approximately $800,000 as of March 31, 1992 and approximately $900,000 as of December 31, 1991.

Although the outcome of the above matters cannot be predicted, the Company believes the reserve is adequate to cover potential losses related to these accounts receivable.

Note 3- Sale of Promissory Notes Receivable and Provision for Contingent Losses on Promissory Notes Sold

In 1991 and 1990 the Company sold to its bank, with recourse, promissory notes receivable at face value of approximately $3,800,000 and $2,500,000, respectively. As of March 31, 1992 approximately $3,000,000 and $1,100,000, respectively and as of December 31, 1991 approximately $3,200,000 and $1,300,000, respectively, of the aggregate amount of the promissory notes sold in each year remained outstanding. All of the promissory notes sold during 1990 and all but one of the promissory notes sold during 1991 represent accounts receivable due to the Company for services rendered. These accounts receivable had been converted to promissory notes prior to their sale to the bank. The Company converted the accounts receivable to interest bearing promissory notes receivable in order to further evidence the amounts owed and to enhance its collection efforts. Certain of the promissory notes are secured by certain assets of the debtors. All of the promissory notes (except the one mentioned in the following paragraph) provide for monthly payments of principal and interest and some are secured by certain assets of the issuers. The Company, pursuant to agreements with its bank, may be required to post substitute collateral if its line of credit from its bank expires or is terminated prior to the promissory notes being paid in full.

In 1991, the Company made arrangements with its bank to provide financing of $1,000,000 to one of its clients for which the Company agreed to guarantee payment. In order for the Company to negotiate maximum security for its guarantee, the Company made the loan directly to the client and simultaneously sold the promissory note receivable to the bank. In addition, among the notes sold during 1991, is a promissory note in the amount of $910,000 which was issued in 1990 by an entity related to this client. On April 22, 1992 a director of the Company, who is not an officer, agreed to purchase these promissory notes (for the full principal amount thereof plus accrued interest) without recourse to the Company, upon a request by the bank that the Company post substitute collateral. Any such purchase would include the assignment of the collateral pledged as security. The Company entered into this agreement (which was approved by the Board of Directors) with the director in order to protect its interests with respect to these promissory notes. The director is engaged in the operation of nursing homes. Although the Company believes that it will not incur any financial loss as a result of these promissory notes, it has, as of December 31, 1991 and March 31, 1992, established a reserve for contingent losses in the amount of $1,910,000 with respect thereto. The borrower of the $1,000,000

financing used the proceeds to fully fund the purchase price for their acquisition of the client. The equity method of accounting has been used to value the collateral held as security for these promissory notes, which, as a consequence of losses incurred by the client after the closing date of the transaction has resulted in the Company providing a reserve for the total unpaid amount of the promissory notes as of December 31, 1991 and March 31, 1992.

The total outstanding amount of promissory notes receivable of $4,500,000 as of December 31, 1991 and $4,100,000 as of March 31, 1992 include approximately $3,400,000 of final payments which are due prior to June 30, 1992. It is anticipated that the final payments will be extended by the bank and the Company will continue to be contingently liable until the amounts are paid in full.

Note 4- Litigation

Three separate purported civil class actions were filed on September 27, 1991, March 10, 1992 and March 20, 1992 against the Company, certain directors who are also executive officers of the Company, and in two of the actions against another defendant, in the United States District Court for the Eastern District of Pennsylvania. The several plaintiffs in all three actions claim to be the purchasers of 850 shares of the Company's stock in the aggregate. The several actions seek damages and claim that the defendants violated certain Federal securities laws by furnishing allegedly false and misleading financial information in the Company's financial reports during the several class periods and one or more of the actions allege that the Company failed to disclose that potential claims exist arising out of transactions which may not be fully reimburseable to the Company's clients by third party insurance providers. There are also claims of violations of common law duties. The Company intends to vigorously defend against these three actions. The ultimate outcome of these lawsuits is not known at the present time. Accordingly, no provision for any liability that might result has been made in the accompanying consolidated financial statements of the Company. The Company anticipates that it may incur substantial legal expenses in order to defend the actions and such costs will be expensed as incurred.

The Securities and Exchange Commission is conducting a non-public investigation with respect to the period from September 1989 with respect to certain matters, including the Company's financial statements, financial condition and results of operations. The Company has been cooperating fully on a voluntary basis with such inquiry.

Note 5- Contingencies

In 1988, the Company acquired a 19.5% interest in T.L.C. St. Petersburg, Inc. ("TLC"), an entity which owns and operates a long-term care facility in Florida and which is a client of the Company. The Company has guaranteed $1,500,000 at both March 31, 1992 and December 31, 1991 of working capital loans of TLC and has pledged equal amounts of certificates of deposit as collateral for the guarantee (which are listed as Certificates of Deposit Pledged for Loan Guarantees in the accompanying balance sheets at both March 31, 1992 and December 31, 1991). In addition, the Company has guaranteed notes payable of approximately $1,700,000 of TLC. TLC has made all required principal and interest payments due under the terms of these loans through March 31, 1992.

TLC is currently operating at a break-even point but may require additional financing. TLC is actively seeking refinancing in order to assist in the ultimate sale of the facility. The Management of the Company believes that TLC's underlying asset values are sufficient to satisfy the debt of its secured creditors and that the Company will not be required to fund any of the guarantees discussed above. Accordingly, no provision for this contingency had been made in the accompanying financial statements at March 31, 1992 and December 31, 1991. However, because of TLC's uncertain financial condition, the Company has reserved $636,000 at both March 31, 1992 and December 31, 1991 against advances to and receivables from TLC.

The Company has entered into a limited loan guarantee for the benefit of an unaffiliated client in the amount of $700,000 which expires on November 15, 1992. The Company believes that the borrower has sufficient assets to repay the obligation and it does not expect to be required to fund any obligation under the terms of the guarantee.

The Company has a $15,000,000 bank line of credit on which it may draw to meet short-term liquidity requirements or for other purposes. Amounts drawn under the line are payable upon demand. At both March 31, 1992 and December 31, 1991 there were no borrowings under the line. However, the Company, during 1991 and 1990, sold promissory notes receivable of approximately $3,800,000 and $2,500,000, respectively, to its bank with recourse. At March 31, 1992 and December 31, 1991, the unpaid balance of the promissory notes receivable sold was approximately $4,100,000 and $4,500,000, respectively (see Note 9 of Notes to Consolidated Financial Statements at December 31, 1991). In addition, at both March 31, 1992 and December 31, 1991 the Company had outstanding approximately $6,200,000 of irrevocable standby letters of credit, which primarily relate to payment obligations under the Company's insurance program. Both the promissory notes receivable sold and letters of credits issued reduce the amount available under the line by approximately $10,300,000 at March 31, 1992 and $10,700,000 at December 31, 1991.

PART I.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto.

RESULTS OF OPERATIONS

Revenues for the first quarter of 1992 increased by 18.4% over revenues in the corresponding 1991 quarter. The following major factors contributed to the increase in revenues: service agreements with new clients in existing geographic areas increased revenues 12.8%; new services to existing clients in currently serviced geographical areas increased revenues .5%; geographic expansion increased revenues 6.6%; gross profit recognized for prior year laundry installation sales increased revenues .7%; and cancellations and other minor changes decreased revenues 2.2%.

Cost of services provided as a percentage of revenues decreased to 85.4% in 1992 from 86.0% in 1991. The primary factors affecting the decrease and their impact on the .6% changes in cost of services provided as a percentage of revenue are as follows: decrease in labor costs of 1.5%; decrease in health insurance and employees benefits of .9%; and offsetting these decreases was a 1.7% increase in the cost of housekeeping and laundry supplies.

Selling, general and administrative expenses decreased to 7.6% (as a percent of revenue) in 1992 from 8.3% in 1991. The favorable results reflect the Company's ability to control these expenses while comparing them to a greater revenue base.

Liquidity and Capital Resources

At March 31, 1992 the Company had working capital of $32,654,609 which represents a minor increase over December 31, 1991. Working capital continues to increase, reflected principally in higher accounts receivable as a result of the Company's 18.4% increase in revenues. The Company's current ratio at March 31, 1992 was 3.8 to 1 compared to 3.5 to 1 at December 31, 1991.

The net cash used in the Company's operating activities was $1,309,871 for the period ended March 31, 1992. The component of working capital that required the largest amount of cash was accounts receivable, which increased by $2,890,166. The increase resulted from the continued growth in the Company's revenues which increased by 18.4% and the timing of collections.

The Company expends considerable effort to collect the amounts due for its services on the terms agreed upon with its clients. Many of the Company's clients participate in programs funded by federal

and state governmental agencies which historically have encountered delays in making payments to its program participants. Whenever possible, when a client falls behind in making agreed upon payments, the Company converts the unpaid accounts receivable to interest bearing promissory notes receivable. The promissory notes receivable provide a means by which to further evidence the amounts owed, provide a definitive repayment plan and therefore may enhance the ultimate collectibility of the amounts due. In some instances the Company obtains a security interest in certain of the debtor's assets. Historically, the Company has incurred only minor losses related to uncollected accounts receivable and promissory notes receivable. Certain of the Company's promissory notes receivable have been sold to its bank (see Note 9 of Notes to Consolidated Financial Statements at December 31, 1991).

The Company has a $15,000,000 bank line of credit on which it may draw to meet short-term liquidity requirements in excess of internally generated cash flow. Amounts drawn under the line are payable upon demand. At March 31, 1992, there were no borrowings under the line. However, at such date, the amount available under the line had been reduced by approximately $10,300,000 as a result of contingent liabilities of the Company to the lender relating to letters of credit issued for and guarantees of promissory notes receivable sold by the Company.

At March 31, 1992, the Company had $7,748,250 of cash, cash equivalents and tax exempt marketable securities, which it views as its principal measure of liquidity.

Three separate purported civil class actions were filed in late 1991 and early 1992 against the Company. The several actions claim that the defendants violated certain Federal Securities Laws by furnishing allegedly false and misleading financial information in the Company's financial reports during the several class periods. The Company is vigorously contesting the three lawsuits. The Company anticipates that it may incur substantial legal expenses in future periods in order to defend the actions and such costs will be expensed as incurred. No specific amount of damages has been claimed in any of these actions which will involve numerous legal and factual issues and significant uncertainties and discovery. Accordingly, a reliable estimate of the amount of potential damages to the Company cannot be made at the present time. However, defense costs and any potential settlement or judgement costs associated with this litigation will adversely affect the Company's liquidity (See Form 10-K for the year ended December 31, 1991- Item 3. Legal Proceedings and Note 11 of the Notes to the Consolidated Financial Statements at December 31, 1991).

Subject to the substantial legal expenses which may be incurred in connection with the three purported class action lawsuits discussed above, the Company has no specific material commitments for capital expenditures and believes that its cash from operations, existing balances and available credit line will be adequate for the foreseeable future to satisfy the needs of its operations and to fund its continued growth. However, if the need arose, the Company would seek to obtain capital from such sources as long-term debt financing or equity financing.

PART II. Other Information

Item 1. Legal Proceedings. None

Item 2. Changes in Securities. None

Item 3. Defaults under Senior Securities. None

Item 4. Submission of Matters to a Vote of Security Holders. Not Applicable

Item 5. Other Information.

a) None

Item 6. Exhibits and Reports on Form 8-K.

a) Exhibits - None

b) Reports on Form 8-K

The Company filed on or about March 13, 1992 a report on Form 8-K pursuant to Item 5 - Other Events.

The Company filed on or about April 2, 1992 a report on Form 8-K pursuant to Item 5 - Other Events.

The Company filed on or about April 22, 1992 a report on Form 8-K pursuant to Item 5 - Other Events.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant had duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HEALTHCARE SERVICES GROUP, INC.

May 19, 1992
Date

DANIEL P. McCARTNEY
Director, President and
Chief Executive Officer

May 19, 1992
Date

THOMAS A. COOK
Director, Executive Vice
President, Chief Financial
Officer and Secretary

May 19, 1992
Date

Richard W. Hudson
Vice President- Finance
and Controller